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Current Support Brief

US AND USSR: COMPARATIVE GROWTH RATES



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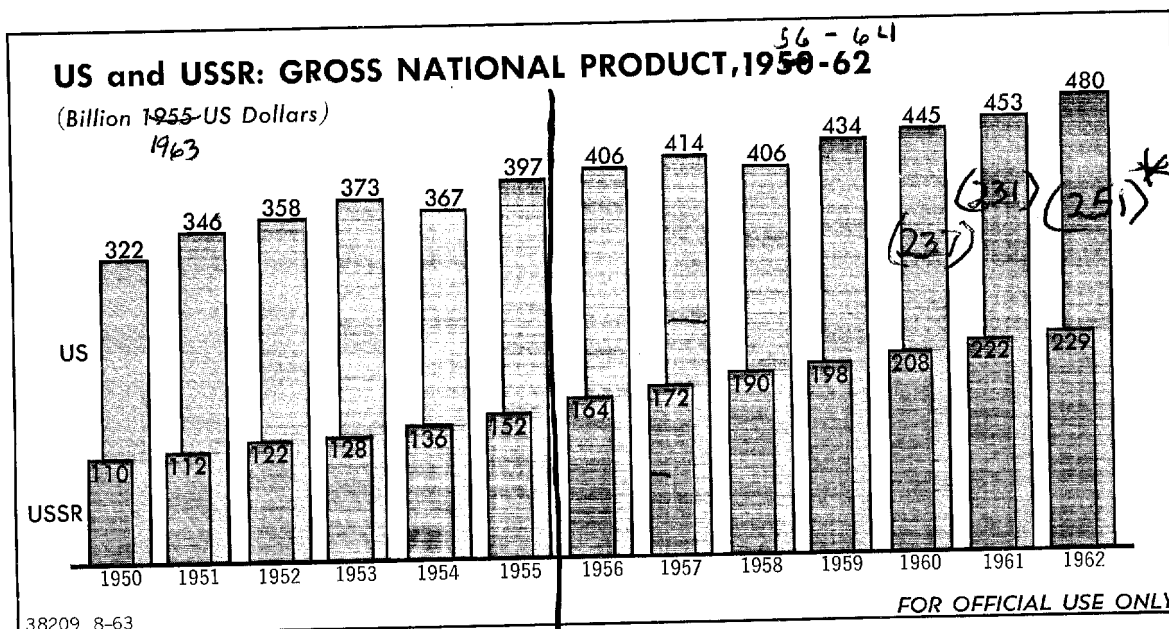
CENTRAL INTELLIGENCE AGENCY

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US AND USSR: COMPARATIVE GROWTH RATES

Since 1950 the gross national product (GNP) of the USSR has grown at an average annual rate almost twice that of the US -- 6.3 percent compared with 3.4 percent. In the first part of the period (through 1959) the Soviet rate of growth averaged 6.7 percent but in the last 3 years has slowed down to 5.0 percent. The reasons for the slowdown are a compound of (a) the drain on resources, especially high-quality resources, caused by increasingly costly military and space programs, (b) the failure of recent measures taken to expand agricultural production, and (c) mismanagement in industry in the area of capital construction and the transition to a shorter workweek. Moreover, the maintenance of the remarkably high rate of 6.7 percent depended on a continued increase in the percent of GNP going to investment and, since 1958, this proportion has remained practically constant. As a result of the higher rate of growth in the USSR, the Soviet GNP, which was about one-third of the US GNP in 1950, is now almost one-half, as illustrated in the accompanying chart.



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* Absolute difference in GNP

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1. Trends in GNP

Data on the GNP in the US and the USSR, 1950-62, are presented in Table 1. Between 1950 and 1962 the GNP of the USSR doubled while the GNP of the US increased 50 percent. The Soviet GNP was about one-third of the US GNP at the beginning of the period, almost one-half at the end.

During this period the annual increase in the Soviet GNP ranged irregularly between a low of 1.5 percent (1951) and a high of 11.4 percent (1955). These year-to-year fluctuations are attributable to variations in the fortunes of Soviet agriculture, the advances in industrial production having been fairly steady. The fluctuations in the annual increase in the US GNP were even more pronounced -- indeed GNP actually went down in two of the years (1954 and 1958) -- and are attributable to the cyclical ebb and flow of general business conditions.

When average annual rates of growth are calculated for the sub-periods 1951-55, 1956-59, and 1960-62,* they show that the Soviet rate of growth in the past 3 years has declined both absolutely and also in relation to the growth of the US GNP, as follows:

	<u>Average Annual Percentage Growth in GNP</u>			
	<u>1951-55</u>	<u>1956-59</u>	<u>1960-62</u>	<u>1951-62</u>
US	4.3	2.2	3.5	3.4
USSR	6.6	6.9	5.0	6.3

2. Trends in Industrial and Agricultural Output

Data on industrial output, agricultural output, and investment in the US and the USSR, 1950-62, are presented in Table 2. Between

* The base years for these calculations are, respectively, 1950, 1955, and 1959.

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1950 and 1962, Soviet civilian industrial production grew at an average annual rate of 9.2 percent, more than twice the 3.9 percent rate in the US. Soviet agricultural production grew at an average annual rate of 3.9 percent, or double the US rate of 1.9 percent. Variations in these growth rates by subperiod are as follows:

	Average Annual Percentage Growth in Industrial and Agricultural Output			
	<u>1951-55</u>	<u>1956-59</u>	<u>1960-62</u>	<u>1951-62</u>
Industrial output				
US	5.2	2.2	3.9	3.9
USSR (civilian)	10.1	9.8	7.0	9.2
Agricultural output				
US	2.1	1.7	1.8	1.9
USSR	4.3	4.9	1.9	3.9

The major causes of the decline in the rate of growth of Soviet civilian industrial production appear to be (a) the transition from a 47-hour to a 41-hour workweek in industry, with the result that total man-hour inputs into industry increased little if at all between 1958 and 1961; (b) the difficulty in maintaining previous rates of increase in new injections of capital into industry (see p. , below); and (c) difficulties in the management of industry, reflected in an apparent decline in the rate of increase in the efficiency with which capital and labor inputs are being used.

The low rate of growth in US agricultural production is still high enough to yield large surpluses of many products, whereas the USSR is striving for a much higher rate of growth in its agriculture. The major portion of the gains in Soviet agricultural output came after Stalin's death as acreage was expanded, new incentives were provided for agricultural workers, and more machinery was allocated to agriculture. Since 1958, Soviet agricultural output has suffered from

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relatively poor weather conditions and a sharp reduction in the rate of growth of new resources committed to agriculture. Attempts to improve management and incentives in agriculture have at best proved only partially successful.

3. Investment

Possibly the most important factor explaining the higher general growth rates in the USSR is the difference in the growth of new fixed investment in the US and the USSR. New fixed investment, which includes the construction and equipping of new productive capacity, went up by 24 percent in the US from 1950 to 1962, whereas in the USSR new fixed investment in 1962 was almost four times the 1950 level (see Table 2).

Beginning in 1957 the rate of growth in new fixed investment in the USSR slowed moderately and then more noticeably in 1961. This slowdown in the rate of investment is in large measure the result of the surge in defense spending which probably began in 1958 and continued through 1962. Soviet planners tempered the effect of this decline on industry at first by sharply cutting allocations to new residential construction. After 1959, however, the annual rate of growth of new fixed investment in industry fell to less than 5 percent -- about a third of the 1959 increase. This is the economic slowdown most ominous for future Soviet economic advance. A further complication is the growing volume of unfinished construction, which impedes the conversion of investment activity into useable capital stock. To speed up the completion of construction projects, the Soviet leadership has tried to set up priority lists, has reduced the amount of decentralized investment, and has reorganized the administration of construction. Yet the problem has not been solved, according to complaints made by various Soviet leaders from Khrushchev on down.

For the period as a whole, the rate of growth in new fixed investment in the USSR was approximately 11 percent, a rate well above the rate of growth of GNP (6.3 percent). Therefore, new fixed investment in the USSR represented an increasing share of GNP, and the maintenance of high rates of growth in GNP and its components, especially

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industrial production, was dependent on a continued increase in new fixed investment as a share of GNP. In the past 3 years, however, the percentage of Soviet GNP going to investment appears to have leveled off (see Table 2). The rate of growth of new fixed investment in the US, unlike that of the USSR, averaged only 1.8 percent, a rate below the rate of growth of GNP (3.4 percent). Therefore, new fixed investment in the US represented a declining share of GNP, and the growth of GNP was presumably less than if new fixed investment had remained a constant share. In short, a tapering off of Soviet growth rates would seem almost inevitable because chances of pushing investment to a higher and higher percent of GNP get progressively smaller unless the proportion of output going to defense is correspondingly reduced.

4. The Soviet Problem

The major economic goal of the USSR is to catch up with the US in the shortest possible period of time. Substantial progress toward this goal has been made since 1950, but much remains to be done. The decline in rates of growth is thus a major concern to the Soviet leadership, especially because this decline comes at a time when competition for resources for use in the three main areas of economic activity -- defense and space, growth, and consumption -- has become intensified. Moreover, an aspect of resource allocation that is not revealed by the aggregative statistics is the competition for specialized, high-grade resources -- scientists, design engineers, highly trained technicians, and special and high-quality materials and equipment. The Soviet leaders are now in the process of making major decisions about these broad questions of allocation of resources and are re-examining their goals for 1964 and 1965, the last 2 years of the Seven Year Plan.

Although comparisons with US growth are of primary interest, comparisons of Soviet growth with five other industrial nations are presented in Table 3.

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Table 1

US and USSR: Gross National Product
1950-62

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	Billion 1955 Dollars												
US GNP ^{a/}	321.9	345.9	357.7	373.4	367.5	397.4	405.7	413.5	406.1	433.7	445.2	453.1	480.5
Soviet GNP ^{b/}	110.3	112.0	122.4	127.5	136.2	151.7	163.7	172.4	189.6	198.2	208.5	222.4	229.2 ^{c/}
	Percent												
Soviet GNP as a percent of US GNP	34.3	32.4	34.2	34.1	37.1	38.2	40.4	41.7	46.7	45.7	46.8	49.1	47.7
Annual percentage change in US GNP		7.5	3.4	4.4	-1.6	8.1	2.1	1.9	-1.8	6.8	2.7	1.8	6.0
Annual percentage change in Soviet GNP		1.5	9.3	4.2	6.8	11.4	7.9	5.3	10.0	4.5	5.2	6.7	3.1
	1955 = 100												
Index of US GNP	81	87	90	94	92	100	102	104	102	109	112	114	121
Index of Soviet GNP	73	74	81	84	90	100	108	114	125	131	137	147	151

a. GNP in 1954 market prices was adjusted to a 1955 price base. See, for GNP in 1950-59, Economic Report of the President, January 1963, Table C-3, p. 174; for GNP in 1960-62, US Department of Commerce, Survey of Current Business, July 1963, S-2. The basis for converting 1954 prices into 1955 prices is presented in Economic Report of the President, Table C-6, p. 178.

b. The dollar value of Soviet GNP was obtained by dividing Soviet GNP in rubles by the geometric mean of a Soviet-weighted and US-weighted ruble-dollar conversion ratio for GNP.

c. Preliminary estimate based on the limited amount of plan fulfillment data now available for 1962.

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Table 2

US and USSR:
Indexes of Industrial Output, Agricultural Output, and New Fixed Investment
1950-62

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	1955 = 100												
US industrial output <u>a/</u>	77.5	84.2	87.3	94.5	88.8	100.0	103.4	104.2	97.0	109.3	112.5	113.7	122.5
Soviet civilian industrial output <u>b/</u>	61.7	68.9	73.5	80.7	90.2	100.0	110.8	122.6	133.7	145.2	154.3	164.5	178 <u>c/</u>
US agricultural output <u>d/</u>	90	93	96	97	97	100	101	99	106	107	110	111	113
Soviet agricultural output <u>e/</u>	81	74	84	85	87	100	113	113	126	121	124	134	128
US new fixed investment <u>f/</u>	86	85	85	89	90	100	102	100	89	99	101	99	107
Soviet new fixed investment <u>g/</u>	56	64	72	76	89	100	115	130	151	170	184	192	203
	Percent												
US new fixed investment as a percent of GNP	16	15	14	14	15	15	16	15	14	15	14	- 14	14
Soviet new fixed investment as a percent of GNP	14	15	15	15	16	17	18	20	21	22	23	23	23

- a. The Federal Reserve Board industrial production index, Federal Reserve Bulletin, Board of Governors, Washington, D.C., July 1963, p. 1000, was shifted to a 1955 base.
- b. The Greenslade-Wallace aggregate civilian industrial production index.
- c. Preliminary estimate based on an 8.2-percent increase above that of 1961.
- d. The aggregate gross farm output index of the Department of Agriculture in Agricultural Statistics 1962, Washington, 1963, p. 540, was shifted to a 1955 base for 1950-61. The 1962 figure is a preliminary estimate of the Department of Agriculture.
- e. Net agricultural production in the USSR.
- f. New fixed investment, Survey of Current Business, US Department of Commerce, July 1963, Table 5, p. 14, was adjusted to factor cost bases.
- g. State and decentralized investment, kolkhoz investment, and private housing adjusted to factor cost bases.

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Table 3

France, West Germany, Italy, the United Kingdom, Japan, the US, and the USSR:
Annual Average Rates of Growth of GNP
1950-62 a/

						Percent
	<u>1951-55 b/</u>	<u>1956-60 c/</u>	<u>1961</u>	<u>1962</u>	<u>1961-62 d/</u>	<u>1951-62 b/</u>
France	4.5	4.2	4.4	5.5	4.9	4.4
West Germany	9.0	6.0	5.5	4.1	4.8	7.0
Italy	6.0	5.9	8.0	6.1	7.1	6.1
United Kingdom	2.6	2.7	2.1	0.3 <u>e/</u>	1.2	2.4
Japan	7.1	9.4	16.1	5.7	10.8	9.1
US	4.3	2.3	1.8	6.0	3.9	3.4
USSR	6.6	6.6	6.7	3.1	4.8	6.3

- a. The data for 1950-60 are from Stanley Cohn's paper "The Gross National Product in the Soviet Union: Comparative Growth Rates" for the Joint Economic Committee study, Dimensions of Soviet Economic Power, December 1962, Table 3, p. 75. The data for 1961-62 are from official statistics of the various countries and from Table 1, p. 6, above.
- b. The base year for the calculations in this column is 1950.
- c. The base year for the calculations in this column is 1955.
- d. The base year for the calculations in this column is 1960.
- e. This figure represents growth of expenditures for domestic product.

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